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IN THE MATTER OF THE REVIEW AND
POSSIBLE REVISION OF ARIZONA
UNIVERSAL SERVICE FUND RULES,
ARTICLE 12 OF THE ARIZONA
ADMINISTRATIVE CODE

DOCKET NO. RT-00000H-97-0137

IN THE MATTER OF THE
INVESTIGATION OF THE COST OF
TELECOMMUNICATIONS ACCESS.

DOCKET NO. T-00000D-00-0672

REPLY COMMENTS OF QWEST
CORPORATION

Qwest Corporation ("Qwest") submits the following reply comments pursuant to the
Procedural Order entered in these dockets, dated November 28, 2007.

I. REPLY COMMENTS REGARDING ACCESS

Switched access reform is not specific to a single company or section of the industry.
CLEC access reform is equally as important as the reform that Qwest has already undertaken in
Phase I of the Cost of Telecommunications Access Docket. Implicit subsidies create
opportunities for arbitrage and allow CLECs to charge unrestrained rates to carriers without any
justification. As Qwest has detailed in opening comments, rate restructuring encourages

1 efficient competition. Eschelon, et al, argues that the revenue generation from this implicit
2 subsidy is necessary for the financial existence of many CLECs. Certainly, reduction in access
3 rates lowers revenues, but those are revenues generated from third parties who are not able to
4 choose whether to terminate calls through that LEC. As Time Warner points out in its
5 comments, this disparity injures other competitors. Qwest cannot agree, however, with Time
6 Warner's mistaken assertion that this docket should further address the access rates of Qwest in
7 Phase II. The docket must take into account the full range of access charge issues raised in
8 Qwest's initial comments. And, with respect to Qwest specifically, Qwest reiterates that its
9 switched access rates have already been substantially reduced in Phase I of this proceeding.

10 Eschelon argues that the ACC should wait until the FCC acts in the Intercarrier
11 Compensation docket. However, the FCC did act on CLEC access rates in the 7th report and
12 order, and reaffirmed that decision in the 8th report and order.¹ The FCC restricted CLECs from
13 tariffing rates higher than those of the ILECs with which they compete. At a minimum, the ACC
14 should bring Arizona CLEC access rates current with FCC orders already in place. This includes
15 the Carrier Common Line charge (CCL) which was eliminated by the FCC both through the
16 CALLS plan and in the 7th and 8th report and order for the CLECs. The analysis which Eschelon
17 calls on the Commission to make for each individual CLEC was rejected by the FCC.

18 Eschelon also proposes to introduce billing dispute issues into the docket. This is neither
19 necessary nor appropriate for this inquiry. There are well established processes for resolution of
20 billing disputes. Bringing these issues into a discussion of access charge rates will simply
21 unnecessarily broaden and delay the inquiry into the appropriate rate levels for switched access
22 rates.

23 ALECA proposes that the full amount of recovery for switched access reductions should
24 come from the AUSF. Qwest continues to advocate that the Commission should establish a state

25 ¹ Reform of Access Charges Imposed by Competitive Local Exchange Carriers, Eighth Report
26 and Order and Fifth Order on Reconsideration, CC Docket No. 96-262, 19 FCC Rcd 9108
(2004).

1 wide affordability benchmark and that carriers may only recover costs from the AUSF that are
2 above that benchmark and only after being subject to some form of earnings review. Qwest
3 further describes this proposal in the AUSF portion of these comments.

4
5 **II. REPLY COMMENTS REGARDING THE ARIZONA UNIVERSAL SERVICE**
6 **FUND ("AUSF")**

7
8 **A. *Eligibility for AUSF Funding***
9

10 ALECA has provided seemingly contradictory responses to the question of who may
11 draw from AUSF. In response to Q.1., ALECA stated that only companies defined as rural
12 companies per the 1996 Telecom Act should qualify. However, in response to Q9., ALECA
13 stated that CETCs serving rural areas and small communities may receive AUSF based on the
14 CETCs' own cost. In response to Q5., ALECA stated "All carriers whose customers pay into the
15 AUSF should have an opportunity to draw from the fund to recover the costs or foregone
16 revenues from providing benefits to the public consistent with universal service objectives."
17 These positions cannot all be true and confuse the purpose of AUSF. ALECA should clarify
18 their proposal to clearly state what entities are eligible for AUSF. Regardless, Qwest's position
19 is that all ETCs should be eligible to receive support based on the criteria Qwest provided in its
20 original comments.

21 Qwest's position is clear that rural, non-rural, and CETCs are all eligible for AUSF
22 funding subject to certain provisions:

- 23 1. Must be an ETC and serve high cost areas of Arizona.
24 2. ETCs' basic local service rates in high cost wire centers must meet or exceed a
25 Commission-determined affordability benchmark.
26

1 3. ETCs must file a simplified earnings investigation to demonstrate a need for AUSF
2 support.

3
4 ***B. How should the AUSF surcharges be calculated?***

5
6 Of all the parties filing comments on the revenues to be assessed, only Verizon supported
7 the existing methodology. The existing methodology is highly discriminatory, placing 50
8 percent of the AUSF funding burden on providers of intrastate toll service. Intrastate toll service
9 is an anachronism in the current marketplace. The whole concept of toll versus local service
10 disappears in wireless communications, and is becoming less relevant as consumers chose
11 bundled service for toll calls from a wide range of telephone service technologies. As
12 recognized by ALECA and AT&T, as well as Qwest, the most equitable methodology currently
13 available is to assess all intrastate telecommunications services' revenues. This includes
14 wireline, wireless, cable telephony, and interconnected VoIP services. Therefore, a
15 single surcharge, rather than a three part mechanism, should be calculated to assess all intrastate
16 telecommunications services' revenue at the same rate at a sufficient level to cover AUSF
17 support.

18
19 ***C. Should companies be required to file a rate case? If a rate case is not required, what***
20 ***method should be used to determine whether a company should receive AUSF***
21 ***payments?***

22 ALECA takes the position that rural carriers receiving AUSF support in compensation for
23 high cost loops or foregone access revenues should not be required to undergo individual
24 company rate cases, but rather receive AUSF on a dollar for dollar basis for foregone intrastate
25 access revenues and receive AUSF for high cost loops that exceed 115 percent of the national
26 average loop cost. In order to demonstrate the loop cost, ALECA proposes to utilize the NECA

1 loop cost reporting tool. ALECA's proposal is problematic from four perspectives.

2 First, the purpose of the AUSF is to advance the ACC's universal service goals, since all
3 telecommunications customers in the state are providing funding for AUSF. The only goal that
4 ALECA discusses in their proposal is increased investment in rural areas. This additional
5 investment, in and of itself, does nothing to advance the 94.2 percent level of penetration for
6 voice grade services that currently exists in Arizona². It is appropriate to demonstrate how the
7 additional investment furthers the goals of universal service and demonstrate that the addition
8 investment provided by AUSF in is the public interest.

9 Second, the ALECA members are regulated through their rate of return for intrastate
10 services. Given this form of regulation, it is only common sense that any additional revenues
11 derived from the AUSF or revenues received to replace foregone access revenues be justified
12 through some sort of earnings investigation. Qwest has recommended that a simplified earnings
13 investigation process be utilized. To the extent that a carrier has entered into an AFOR
14 agreement with the Commission, something other than the simplified earnings investigation may
15 be appropriate, to the extent that the AFOR agreement recognizes the possibility of receiving
16 support from AUSF.

17 Third, any federal universal service (FUSF) support that is targeted to the state
18 jurisdiction must be considered in the determination of AUSF, otherwise, double recovery of
19 loop or switch costs will take place. For example, FUSF provides rural carriers with loop costs
20 greater than 115 percent of the national average, but less than 150 percent of the national
21 average, an additional recovery of 65 percent of the costs in this range. If the rural carrier's loop
22 costs exceed 150 percent of the national average, it receives an additional recovery of 75 percent
23 of the costs above this level. The rural carriers already receive 25 percent of their loop costs
24 through interstate rates and cost recovery mechanisms. Therefore, **100 percent** of a rural

25 ² TELEPHONE SUBSCRIBERSHIP IN THE UNITED STATES, Industry Analysis and
26 Technology Division Wireline Competition Bureau Federal Communications Commission,
released June 2007 at Table 2.

1 company's loop cost in excess of 150 percent of the national average and **90 percent** of its loop
2 cost between 115 percent and 150 percent are already recovered through interstate rates and
3 FUSF. Allowing rural companies to receive AUSF for costs in excess of 115 percent of the
4 national average, without considering FUSF, is irrational, and only serves to bloat the AUSF
5 fund and enrich its recipients as the expense of the consumers of telecommunications services in
6 the state of Arizona.

7 Fourth, the AUSF process should focus initially on the responsibility of carriers to
8 recover the cost from its own end users. Qwest proposes that the Commission develop an
9 affordability benchmark for high cost areas. ETCs should only be eligible for AUSF support to
10 the extent that the rate for basic service in the high cost area meets or exceeds the Commission
11 determined affordability benchmark.

12 Without adequate controls on qualifications for the AUSF as discussed above, it is
13 possible that the rules will encourage uneconomic investment that does not advance Arizona's
14 universal service goals. In this situation, AUSF would only advance the financial interests of
15 selected fund recipients. As Qwest noted in its initial comments, the size of the AUSF should be
16 closely monitored to prevent uncontrolled growth.

17
18 ***D. Should the fund allow upfront recovery of construction costs?***
19

20 Both Verizon and AT&T state that up front recovery of construction costs should not be
21 allowed because it may provide double recovery of costs in conjunction with FUSF and it may
22 not be available to similarly situated carriers. Additionally, Verizon states that one time funding
23 could impose a hardship on ratepayers through spikes in the surcharge. Qwest disagrees. A
24 properly designed, upfront mechanism will not cause double recovery, nor impose a hardship
25 upon ratepayers. If the one-time AUSF distributions are targeted to extending facilities to
26 potential customers not presently receiving service, or for the amelioration of inadequate service

1 as discussed by Qwest in its initial comments, these issues are moot. Additionally, the other
2 safeguards that Qwest has suggested, such as accounting for FUSF, use of a simplified earnings
3 investigation, and the use of an affordability benchmark all protect the fund from excessive
4 growth. Allowing upfront recovery in the manner proposed by Qwest goes directly to providing
5 service where it is currently not available or inadequate.

6
7 **III. REPLY COMMENTS REGARDING LIFELINE ADMINISTRATIVE EXPENSES**
8


9 In response to Question 21, Verizon raised the concern that "substantially increasing the
10 size of the AUSF should be avoided, unless clear benefits to Arizona residents are evident."

11 Based on program eligibility data provided by the Arizona Department of Economic
12 Security, the ETCs have projected that 400,000 households could be added to the Lifeline
13 program if DES were to provide automatic enrollment for Lifeline concurrent with their
14 enrolling an individual in a qualifying program. This addition of 400,000 households would
15 result in \$38 million in Federal benefits being paid to Arizona residents enrolled in the Lifeline
16 program.

17 Qwest believes allocating approximately \$325,300 in AUSF funds in order to get an
18 estimated \$38 million in Federal funds paid to Arizona residents would be an appropriate use of
19 the AUSF and provides a "clear benefit to Arizona residents", as suggested by Verizon.

20 RESPECTFULLY SUBMITTED this 4th day of February, 2008.

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